

## Macedonian Economy at a Glance

(as of 06/08/2006)

### Real Sector

- ◆ In 2005, the Macedonian economy built up on the 2004 growth, while political and stability issues are not the primary concern. The IMF and the World Bank have supported GOM's policy awarding new three-year arrangements.
- ◆ After the 4.1% growth in 2004, real GDP in 2005 rose by 4.0%, matching end-year projection. GDP growth of 4.0% is expected in 2006, as well.
- ◆ The negative trend of the industrial output in 2004 (annual decline of 2.2 percent) was reversed in 2005 due to opening of capacities in the mining and iron and steel industries. In 2005, industrial output increased by 7%. In the first four months of 2006, industry struggled, falling by 0.9%, although it is expected to contribute to 2006 growth with a 5% annual rise.
- ◆ In 2005 inflation remained low at an annualized CPI-based 0.5% (period to period). Projection for 2006 is up to 1.8%.
- ◆ Unemployment rate in 2005: 37.3%<sup>1</sup>; Employment rate in 2005: 33.9%<sup>1</sup>  
Number of employed persons at the end of February 2006: 262,291<sup>2</sup>, up by 4.1% on annual basis.  
Number of unemployed persons at the end of April 2006: 357,556<sup>2</sup> – down by 7.2% on annual basis.
- ◆ Wage policy - Nominal average net wage per worker in March 2006: Denar 13,255 - up by 6.8% on annual basis
- ◆ The value of consumers' basket in March 2006: Denar 10,346 – up by 4.6% on annual basis.
- ◆ 29.6% of the population lived below the poverty line (USD \$75/month) in 2004 – a drop from 30.2% in 2003
- ◆ the “gray economy” is estimated to be between 15 and 42% of GDP

### Fiscal Sector

- ◆ Collection of major revenues improved since 2004, due to a prudent fiscal policy. Fiscal sustainability was kept in 2005 and beginning of 2006. The GOM had a budget surplus of about 0.5 percent of GDP in 2005. New tax bracket of 24% on incomes exceeding Denar 60,000, and higher excises on vehicles over 1,500cm<sup>3</sup> was introduced from January 1, 2005.  
Total budget revenues at the end of April 2006: Denar 21,800 million – up by 6.3% on cumulative basis.  
Total budget expenditures at the end of April 2006: Denar 21,424 million – up by 2.6%.  
Budget surplus at the end of April 2006: Denar 376 million = 0.1% of GDP.  
IMF's end-of-2006 Central Government budget balance projection: –0.6% of GDP
- ◆ Tax collection at the end of April 2006:

Type of revenue	% of total revenues	% of 2006 plan
Personal income tax: Denar 2,636 million	12.1	32.7
Profit tax: Denar 2,036 million	9.3	63.9
VAT: Denar 8,040 million	36.9	28.4
Excises: Denar 3,215 million	14.7	27.2
Import duties: Denar 1,449 million	6.6	29.9
Non-tax revenues: Denar 2,768 million	12.7	26.7

### External Sector

- ◆ At the end of March 2006:  
Exports: US\$ 450.5 million - down by 6.5%; Imports: US\$ 656.5 million – down by 6.4%;  
Import/export coverage ratio: 68.6%; Trade deficit: US\$ 205.9 million – 3.5% of GDP
- ◆ Trade with USA at the end of March 2006:  
Exports: US\$ 6.4 million – 1.4% of the total Macedonian exports

<sup>1</sup> Data from the Labor Force Survey - Statistical Office of the Republic of Macedonia

<sup>2</sup> Data from the Employment Fund

Imports: US\$ 8.4 million – 1.3% of the total Macedonian imports

- ◆ Current account surplus at the end of February 2006: US\$ 42.4 million = 0.7% of GDP
- ◆ On April 4, 2003 Macedonia officially became member of the WTO. Stabilization and Association Agreement officially went into force on April 1, 2004.
- ◆ Free trade agreements with: Croatia, FR Yugoslavia, Bulgaria, Turkey, Ukraine, Albania, Bosnia & Herzegovina, Romania and EFTA
- ◆ FDI at the end of February 2006: US\$ 3.5 million
- ◆ External debt at the end of March 2006: US\$ 1,992.1 million; 33.5% of GDP
- ◆ Foreign exchange reserves at the end of March 2006: US\$ 1,390.4 million = 4.1 months of imports

## **Monetary Sector**

- ◆ After relatively stringent monetary policy through Q3 of 2005, some policy relaxation occurred in Q4, resulting in gradual decline of banks' interest rates. This trend continued in 2006 as well.  
Average nominal weighted lending rate in March 2006: 11.60%  
Average nominal weighted deposit rate in March 2006: 5.00%  
Money market weighted interest rate in March 2006: 6.50%
- ◆ The CB successfully manages the exchange rate of the denar, maintaining the peg against the euro at its targeted level.
- ◆ Total deposits with banks at the end of March 2006: Denar 83,950 million - up by 19.1% on annual basis. 93.7% of the total are short-term deposits, while 63.1% of the total are foreign currency deposits.
- ◆ Total bank loans at the end of March 2006: Denar 73,017 - up by 21.0% on annual basis.  
74.6% of the total bank loans are in denars, while 54.9% are long-term loans.

## **Relations with international institutions and organizations**

- ◆ The Staff Monitoring Program with the IMF went off-track at the end of May 2002 as the IMF mission did not approve several GOM's measures (public sector wage bill increase, TAT pyramid scheme bailout, pre-payment of frozen f.c. bonds). The 14-month stand-by arrangement (SBA), approved by the Board on April 30, 2003 was successfully completed on August 15 with GOM withdrawing the last tranche of about US\$ 11 million. Negotiations for a new program finished in July 2005. A new three-year SBA was approved on August 31, 2005, and first withdrawal of US\$ 12 million was made in late-2005. After that, the program turns to be precautionary and there will be no other withdrawals of IMF funds.
- ◆ World Bank Group - FESAL II- arrangement with the World Bank was completed with disbursement of the third tranche of US\$ 20.5 million in January 2004. In April 2002, PSMAC credit for restructuring public administration was approved by the WB Board. In June 2003 US\$ 17.1 million were disbursed to GOM. PSMAL credit worth US\$ 49.8 million was signed and approved in April 2004. Two new loans have been approved in 2005: Programmatic Development Policy Loan (PDPL) – focused on structural reforms in labor, health, public administration and judiciary was approved on October 27, and Business Environment Reforms and Institutional Strengthening (BERIS) was approved in June 2005. GOM already received US\$ 30 million as a first tranche of the PDPL program.
- ◆ EBRD - In the period 1991-2005, EBRD financed 26 projects (17 in private; 9 in public sector) worth euro 410.3 million for: private sector development, restructuring the banking sector, development of financial institutions, supporting SME's, infrastructure projects, AG projects, municipal services, etc. It co-founded a micro-finance bank ProCredit that began operations in July 2003, and extended over euro 50 million in loans so far. Also, EBRD extended a pre-privatization loan to ESM worth euro 45 million.
- ◆ European Union -macro financial assistance of €80 million consisting of €50 million loan and €30 million grant were approved in 2000. The last tranche of €18 million loan and €8 million grant was disbursed in late December 2003. Additional €18 million grant was also disbursed in 2003. The European Agency for Reconstruction manages a cumulative portfolio of some €262 million worth of projects and programs. In 2004 alone, the Agency was entrusted with €43 million of European Commission assistance funds.
- ◆ EIB - in the period 1998-2000 extended two loans in the total amount of US\$ 121.0 million.